



MINUTES

Meeting called to order at 9:05am

Board Members Present: Councilmember Tim Burgess; Robert Harvey; Jean Becker; David Stewart; Glen Lee; Lou Walter(via phone)

Board Members Absent: Rod Rich

Staff Present: Cecelia M. Carter, SCERS Executive Director; Mike Akiyama, SCERS staff; Tony Smith, SCERS staff; Ben Kalman, SCERS staff; Beverly Yapp, SCERS staff; Lisa Carns, SCERS staff

Others Present: Mike Monaco, Song Mondress Law Firm; Carlton Seu, Seattle City Attorney's Office; John McCoy, Legislative Central Staff; Steve Kovac, Seattle City Light; Tom Kirn, Finance and Administration Services; Merle Overland, ARSCE; Judith Flemings, ARSCE; Diana Douglas, Local 17; Laurie Tish; Moss Adams; Jessica Wang, City Budget Office; Steve Viney, Retiree; Kelly Enright, Seattle City Light; Sherri Crawford, Seattle Public Utilities; Kirk Jones, ARSCE; Rick Thorsen, Seattle Auditors Office; John Masterjohn, ARSCE; Davonna Johnson, Seattle City Light.

Public Comment: Ms. Flemings with ARSCE approached to alert the Board they are not receiving the Retiree death data that the Board expected the SCERS Staff to provide as outlined at the April Board meeting. Ms. Flemings conveyed information about correspondence between ARSCE and SCERS Staff referencing the deadline dates and the necessary data. Ms. Flemings conveyed that the deadline was not met by SCERS Staff. The Board Chair, Councilmember Burgess reiterated the Board's expectation that SCERS staff will provide the requested data to ARSCE on or before the deadline date. Ms. Carter, SCERS Executive Director assured the Board this operational matter will be monitored close to ensure future deadlines are not missed.

Administrative Consent Agenda

Minutes:

Provided in the Retirement Board packet was the minutes from the May 17, 2012 Retirement Board regular meeting. Board member, Jean Becker asked for clarification regarding how often the Investment Advisory Committee meets with the SCERS Executive Director outside of the quarterly Investment Committee meetings. Ms. Carter, SCERS Executive Director indicated she meets with the Investment Advisory Committee at least on two additional occasions throughout the year.

Ratification of Retired Payroll, Office Payroll, Other Payments and Withdrawals

Service	\$9,826,354.98
Beneficiary	\$901,415.08
Disability	\$76,284.56
Pension Payroll – PPE May 31, 2012	\$10,804,054.62

Office Payroll – PPE May 4 and 18, 2012	\$90,155.97
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Vouchers Processed – May 31, 2012	\$901,941.35
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*Expert and Consultant Services – \$36,434.48

*Investment Management Fees – \$769,882.77

*Interdepartmental Charges - \$63,092.60

*Miscellaneous - \$32,531.50

Immediate Withdrawals of Contributions for the month of May 2012:

Member	Department Name	Position
Baumgart, Susan M	DoIT	Personnel Spec Sr
Blanks, Cynthia Ann	Seattle Center	Admin Staff Asst
Christen, Tina L	SDOT	Accountant
Decastro, Desiderio Selda	Police	Crossing Guard
Decastro, Monica Badere	Police	Crossing Guard

Member	Department Name	Position
Gregory-VanDyke, Michelle E	Seattle Center	Stage Tech
Harris, Bridgett D	Seattle Center	Janitor
Haywood, Troy J	Fleets	Auto Mechanic
Hilliard, Tracey Lynn	Personnel	Benefits Spec
Kamoto, Ameti	SDOT	Cement Finisher
Lane, Paula Ann	FAS	Admin Spec I
Le, Charlie	Parks	Maint Labor
Masters, Lynne	DoIT	Mgmt Systems
Miller, Larissa N	City Light	Tour Guard II
Rockwell, Bienvenido V	Parks	Program Aide
Segovia, Olga	City Light	Manager 2
Sugawara, Carol	City Light	Admin Spec III
Van Trojen, Steven E	FAS	Vehicle Maint
Wergeland, Kari	Library	Librarian
Wiedenhoft, Jan E	HSD	Program Intake Rep
Williams, Anna Marie	Seattle Center	Admissions

Bold entries above indicate refund payout made to beneficiary of a member dying while in active status.

Withdrawals for a total of: \$579,051.29

Ratification of Service Retirements for the month of May

Retiree	RetireDt	Years	Days	DeptName	Position	Age
Atayde, Teresita V.	5/8/2012	25	199	FAS	Accountant Prin	62
Bedker, Carol A	5/9/2012	20	8	Police	Data Tech	65
Bennedsen, Elizabeth A	4/16/2012	0	245	Vested	Portability	68
Blankenship, Cheryl K.	5/7/2012	13	124	Vested		65
Brown, Cheri K	5/9/2012	31	8	SPU	Actg Tech III-BU	54
Carr, Elizabeth H	5/8/2012	6	72	Library	Librarian	64
Casey, Patricia A	5/5/2012	6	139	Vested		63
Galinato, Victoria	4/25/2012	25	262	FAS	Executive 2	62
Goldberg, Jennie S	4/17/2012	21	131	City Light	Strat Advsr 2	58
Holden, Steve	5/4/2012	32	81	SPU	Const&Maint Equip Op, Sr.	51
Howard, Mark J	5/4/2012	37	18	Police	Strat Advsr 2	60
Nolze, Joseph	4/28/2012	19	38	Parks	Metal Fabricator	59
Quinn, Michael A	5/9/2012	16	127	Police	StratAdvsr2	66
Robinson, Kimberly S.	5/7/2012	21	38	Vested		53
Shiratori, Faye M	5/2/2012	38	22	DoIT	Telephone Services	66
*Shultz, Susan (Shultz, Paul Beneficiary)	2/9/2012	25		Parks	Admin Spec II	65
Sugiyama, Richard M	5/2/2012	31	220	Human Services	Manager 3	64
Washer-Ezelle, Savannah	5/2/2012	21	232	SPU	Heavy Truck Driver	61
Wong, Millie S	4/20/2012	25	244	Human Services	Financial Analyst Supervisor	66

Retiree	RetireDt	Years	Days	DeptName	Position	Age
Wu, Stanley L	5/9/2012	27	357	DoIT	Exec. 2	69
Young,Roy	4/27/2012	14	246	SDOT	Gardener	64

For the month of May: 23 new Members entered the System, 40 terminations, 20 Members retired in the System, 12 Members removed (\$14,641.01), 2 Option D/E continuations, 1 Option F, and 1 Option G.

Motion: Upon motion by Councilmember Tim Burgess, seconded by Bob Harvey, the Retirement Board approved the below items contained in the Administrative Consent Agenda.

- Minutes of the May 17, 2012, Board Meeting
- Ratification of Retirement Payroll, Office Payroll, Other Payments and Withdrawals
- Ratification of Service Retirements for the month of May 2012

Investment Consent Agenda

Investment Committee Report

The Investment Committee met on May 31, 2012 at 12noon at the Seattle City Employees' Retirement System Office, 720 Third Avenue, Suite 900 (Pacific Building). Committee members present: Lou Walter, Chair; Bob Harvey, Member; Glen Lee, Member; David Stewart; Member. Other Board members present: Jean Becker, Member. Investment Advisory Committee members present: Paul Maffeo; Russell Powell; Dr. Alan Hess. Staff Present: Cecelia Carter, SCERS Executive Director; Tony Smith, SCERS staff; Ben Kalman, SCERS staff; Mike Akiyama, SCERS staff; Beverly Yapp, SCERS staff; Lisa Carns, SCERS staff. Others Present: Jeremy Thiessen, Pension Consulting Alliance; David Sancewich, Pension Consulting Alliance; Mike Moy, Pension Consulting Alliance and Andrew Bratt, Pension Consulting Alliance; John McCoy, Legislative Central Staff; Jessica Wang, Finance and Administration Services; Steve Viney, Retiree.

Investment Summary Accounting Report:

Provided in the Retirement Board packet was the Investment Summary report that represents the transaction summary and the market value of the investments as of April 30, 2012. SCERS staff reported the SCERS Total Portfolio had a plan market value of \$1.88 billion. As of the report date, the funded ratio for the plan was 64.20%. The plan reduced its cash balance from \$65 million as of 2/29/2012 to \$12million as of 4/30/2012, investing the vast majority (approximately \$54 million) in the SPDR S&P 500 ETF to get asset class exposure in anticipation of finishing the IMAs for the approved Covered Calls managers. As of April 30, 2012, cash exposure as a percentage of the Total Portfolio was approximately 0.5%.

Performance Report for 1st Quarter 2012:

Mr. Tony Smith, SCERS staff reported that Pension Consulting Alliance provided an overview of the 1st Quarter Performance Report for 2012. SCERS Total Portfolio had an aggregate value of \$1.89 billion as of March 31, 2012. This represents a \$129.1 million increase in value over the last quarter. As of Q1 2012, the SCERS Total Portfolio matched the policy benchmark's return of 8.2%. During the trailing 1-year period, the Total Portfolio returned 3.7%, underperforming the benchmark, which returned 4.9%. However, for the trailing 3-year period, the Total Portfolio returned 14.6% outperforming the benchmark by 30 basis points.

Investment Advisory Committee Recommendations to SCERS Board of Administration

Mr. Tony Smith, SCERS staff reported that the Advisory Committee recommended the assumed actuarial long-term rate of return should not exceed the expected return on plan assets. The Advisory Committee further confirmed the need for engaging in dialogue with the Investment Committee about the impact of having an expected annual return on plan assets that purportedly have been and are projected to be less than the assumed long-term rate of return. The Advisory Committee also recommended the SCERS Executive Director initiate a search for two additional Committee members with applicable experience to serve a minimum four-year term. The Advisory Committee recommended SCERS staff to initiate a public search for one committee member with real estate investment management experience. The Investment Committee approved the SCERS Director to initiate a public search for one additional Advisory Committee member with a real estate background. Lou Walter, Board member commented that the Board should consider discussing the rate of return matter. Ms. Carter, SCERS Executive Director stated that the rate of return discussions will begin at a future Investment Committee meeting.

Active Emerging Markets Manager Search Finalists

Mr. Tony Smith, SCERS staff reported that Pension Consulting Alliance presented a memo to the Investment Committee which recommended five Emerging Markets managers as finalists to be interviewed by SCERS' Investment Committee based on independent reviews of the managers RFP responses. Upon completion of the search process, PCA and Staff recommend that the Investment Committee select one or two managers. The new Emerging Markets mandate will be allocated approximately

\$115 million between the manager(s). The Investment Committee gave approval for PCA and SCERS Staff to continue the due diligence process and determine a timeline for finalist presentations. There was no necessary action.

Public Markets Manager Fee Review

Mr. Tony Smith, SCERS staff reported that Pension Consulting Alliance conducted an analysis of SCERS' current public market investment managers and reviewed their fees. The findings of this study showed that, in general, SCERS' public market manager fees are highly competitive for the size and type of each mandate. Although PCA's analysis identified two managers, Attucks (All-Cap Equity) and PIMCO (Total Return Core Plus) with above median fees, PCA found SCERS' aggregate fees paid to be reasonable, placing SCERS below the median. There was no necessary action.

Workout Portfolio and "Other Assets" Update Memo

Mr. Tony Smith, SCERS staff reported that Pension Consulting Alliance based on feedback from the Investment Committee at the April 26, 2012 meeting, presented a memo which outlined assets currently in the Workout Portfolio and other certain assets in which SCERS Staff and the Committee are interested in monetizing. PCA created two schedules to assist in the process: Schedule 1 includes assets for which a disposition date is more certain or ascertainable (7 assets, estimated NAV \$12.25 million); Schedule 2 lists assets for which a disposition date is less certain or ascertainable (11 assets, estimated NAV \$37.16 million). PCA will continue to monitor the Assets and will assist SCERS Staff in disposing of them as directed. There was no necessary action.

Private Equity Guidelines

Mr. Tony Smith, SCERS staff reported that Ms. Carter, SCERS Executive Director provided a recap of the Private Equity Educational Session meeting held on April 28, 2012. Ms. Carter indicated the need for the Board to approve the Private Equity Guidelines to set parameters for assets which already exist in the Plan. Once the Board of Administration approves the guidelines, the next step would be the creation of a Strategic Plan for Private Equity. The Investment Committee re-recommended that the Board approve the Private Equity Guidelines. Jean Becker, Board Member asked for an explanation on what it means to approve the Private Equity Guidelines. Glen Lee, Board member stated his perception of approving the Private Equity Guidelines means the guidelines set governance for SCERS staff and the consultants to follow for the current private equity investments. There will be more questions and strategic policy matters presented to the Board by SCERS staff and the consultants for the Board's review, guidance and approval as the next steps are developed. Ms. Carter, SCERS Executive Director and SCERS staff re-iterated and elaborated on Mr. Lee's comments.

Motion: Upon motion by David Stewart, seconded by Glen Lee, the Retirement Board accepts the Investment Consent Agenda and approved the Private Equity Guidelines.

- 1st Quarter 2012 Performance Report
- Recommendations by the Advisory Committee. (1) Give the Executive Director authority to post a public notice for an additional Advisory Committee member with a Real Estate background. (2) The Investment Committee review the long-term rate of return
- Private Equity Guidelines

Executive Director Report:

Certification of 2012 Trustee Election

Ms. Carter announced that the election was open May 4 – June 4, 2012. The results are as follows:

Seat A – Three year term(2012-2015) – Sherri Crawford (Seattle Public Utilities)

Seat B – One year term (2012-2013) – Jean Becker (Seattle City Light)

There was an increase of online votes cast this year compared to last year.

Motion: Upon motion of Lou Walter, seconded by Glen Lee, the Board ratifies the certification of election results as provided by Votenet Solutions for the 2012 Board of Administration Seat A regular election for an active member seat (3 year term 2012-2015) and Seat B special election for an active member seat (1 year term 2012-2013). Jean Becker abstained from the vote.

New Business

Councilmember Tim Burgess, Board Chair asked the Board if there were concerns with moving the agenda item "6(a) Claim for Return of Employee Contributions – K. Enright, Active Member" to after agenda item "6(d) Trustee Report on JP Morgan On-Site Due Diligence-May 2012 (NYC)" due to the possibility of the subject matter going into Executive Session. There were no objections from the Board to move the agenda item.

2011 Year-End Presentation of Audited Financial Statements

Mr. Mike Akiyama, SCERS Finance & Operations Manager provided an overview of the *draft* 2011 Financial Statements.

Financial Highlights –

As of December 31, 2011, SCERS held \$1.753 billion in the trust for pension benefits. SCERS assets that are held in trust for the payment of future benefits do not exceed the estimate of actuarially accrued liabilities as of December 31, 2011. The net assets decreased by \$59 million (3.3%) during 2011. The primary drivers were a \$119 million decrease in investment assets and a 9.2% increase in retiree benefits. The revenue for 2011 was \$85 million which includes member and employer contributions of \$100.7 million and loss from investment activity totaling \$15.8 million. The expenses (deductions from net assets) for 2011 increased by \$12.6 million (9.5%) from 2010 expenses. This can be primarily attributed to a \$10.4 million increase in retiree benefits and a \$1.9 million increase in contribution refunds compared to 2010. In 2011, the net increase in the number of retirees receiving benefits was 2.8%.

Revenues Additions to Net Plan Assets –

In 2011, employer contributions increased by \$5.1 million (11.2%) compared to 2010. In 2010, employer contributions decreased by \$1.4 million (3.1%) compared to 2009. Member contributions increased by \$5.1 million (11.1%) compared to 2010. In 2010 member contributions decreased by \$1.3 million (2.7%) compared to 2009. Net investment change and other income was a loss of \$15.8 million in 2011 compared to a gain of \$209 million in 2010.

Expenses Deductions from Net Plan Assets –

Retiree benefits increased in 2011 by \$10.4 million (9.2%) compared to 2010, primarily due to the increased number of members making application for retirement and a mandatory 1.5% COLA (Cost of Living Adjustment). As a comparison, retiree benefits increased \$5.5 million (5.1%) in 2010. Refunds of contributions increased in 2011 by \$2 million (13.3%) compared to amounts paid in 2010. In 2010, refunds increased \$5 million (51%) compared to amounts paid in 2009.

Laurie Tish with Moss Adams presented an overview of the 2011 audit process. Ms. Tish stated an unqualified opinion on the financial statements will be provided following the execution of the management representative letter. Ms. Tish reported to the Board that there were no material weaknesses in the internal control. There was one audit adjustment posted to the record which was a \$12.9 million reserve for certain investments within the workout portfolio. Ms. Tish reported there were no issues with the required communications. The audit was conducted in accordance with auditing standards generally accepted in the United States of America. There are no changes to the accounting policies. There was dialogue among the Board, staff and Laurie Tish from Moss Adams. Bob Harvey, Board Member asked who is responsible on the SCERS staff for collecting the data, reviewing and signing off that the information provided to the auditors is accurate and complete. Ms. Carter, SCERS Executive Director stated the SCERS Operations/Financial Manager is responsible. Ms. Tish was asked how many years Moss Adams had conducted SCERS audit. Ms. Tish stated 6 years. Ms. Carter stated that an RFP will be initiated this year due to Moss Adams contract ending.

Motion: Upon motion of Glen Lee, seconded by Lou Walter, the Board accepts the 2011 Year-End Audited Financial Statements as presented by Moss Adams and SCERS Staff.

Trustee report on NCPERS – May 2012 (NYC)

Mr. Bob Harvey, Board Member reported that he, Lou Walter and Rod Rich attended the 2012 NCPERS conference held in New York City May 4 – 10th. Mr. Harvey provided the Board with an overview of the sessions he attended. Mr. Harvey encouraged the other Board members to attend next year's conference. Mr. Lou Walter restated Mr. Harvey's comments. Both indicated the conference is beneficial to the Trustees education.

Trustee report on JP Morgan on-site due diligence – May 2012 (NYC)

Mr. Lou Walter reported after the NCPERS conference, he did an on-site due diligence review with JP Morgan in New York City on May 10, 2012. Mr. Walter stated the visit was good experience. Mr. Walter recommended the Trustees do an on-site visit when provided an opportunity. Experiencing the managers' duties on site is enlightening and you glean a better understanding of their day to day operations and their involvement with our portfolio.

Claim for Return of Employee Contributions – Ms. K Enright, Active Member

Ms. Kelly Enright, Active member requested that the Board consider refunding her employee contributions to the plan since January 2008. Ms. Enright stated that she submitted the "Retirement System Membership – Exempt Employee" form to the Retirement Office in January 2008 thinking she was joining the City of Seattle Deferred Compensation Plan. Ms. Enright acknowledged she executed and dated and provided personal information on both the SCERS membership form for exempt employees and the SCERS beneficiary designation form. Employee contributions began deducting from her paycheck in

January 2008. Questions and dialogue between Ms. Enright and the Board also revealed Ms. Enright did not contact the Executive Director on this matter until 2010.

Status of Benefit Enhancements:

Information: The **estimated** current funding level of the Retirement Fund is 64.20% as of April 30, 2012 on a marked-to-market basis.

The above amount is an estimate calculated each month by the Retirement Office staff. As provided by Ordinance 120685, changes to the Floor COLA will occur once the funding level has reached at least 100% and has been confirmed by the Board after commissioning an actuarial valuation.

The Board reserves the right to enter into executive session if necessary

The Board entered into executive session to discuss a potential litigation matter and Ms. Enright's request at 10:35am for 40 minutes.

Executive Session ended at 11:09am

Lou Walter left meeting at 11:10am

The Board discussed Ms. Enright's matter in Executive Session.

Motion: Upon motion by Lou Walter, seconded by David Stewart, the Retirement Board denied Ms. Kelly Enright's request to terminate her membership and withdraw her employee contribution (with interest) in the Seattle City Employees' Retirement System. Jean Becker abstained from vote. The reason for the denial is as follows:

- Ms. Enright completed and submitted Beneficiary Claim form to the SCERS office
- Ms. Enright executed and submitted the membership form for exempt employees
- The time that lapsed between 2008 and now to address this matter
- The time that lapsed between 2008 and initial contact with Ms. Cecelia Carter, SCERS Executive Director (2010)

The Board also discussed the Forfeiture Policy in Executive Session. The Board agreed to table this item to permit public hearing at the July 12th Board meeting.

Adjournment:

Motion: Upon of motion common consent, the Retirement Board voted to adjourn the meeting at 11:10 am.

David L. Stewart, Secretary